

expenses were incurred, they shall be used to reduce the purchases or expenses of that period. However, when they are received in a later accounting period, they shall be used to reduce the comparable purchases or expenses in the period in which they are received.

considered to exist when it can be demonstrated that an individual or individuals control or influence management decisions or operations of the facility and the supplying business.

3. Control. Control exists where an individual or an organization has the power, directly or indirectly, to significantly influence or direct the actions or policies of an organization or facility.

C. APPLICATION. Where the provider obtains items of services, facilities, or supplies from an organization, even though it is a separate legal entity, and the organization is deemed to be a related organization, in effect the items are obtained from itself. Reimbursable cost should include the costs for these items at the cost to the supplying organization. However, if the price in the open market for comparable services, facilities, or supplies is lower than the cost to the supplier, the allowable cost to the provider shall not exceed the market price. An example would be a corporation building a nursing home and then leasing it to another corporation controlled by the owner.

366. COST TO RELATED ORGANIZATIONS

A. PRINCIPLE. Cost applicable to services, facilities, and supplies furnished to the provider by organizations related to the provider by common ownership or control are includable in the allowable cost of the provider is the cost of the related organization. However, such cost shall not exceed the price of comparable services, facilities, or supplies that could be purchased elsewhere.

B. DEFINITIONS.

1. Related To Provider. Related to the provider means that the provider to a significant extent is associated or affiliated with, or has control of, or is controlled by the organization furnishing the services, facilities, or supplies.
2. Common Ownership. A relationship shall be considered to exist when an individual, including husband, wife, father, mother, brothers, sisters, sons, daughters, aunts, uncles, and in-laws, possesses 5 percent or more of ownership or equity in the facility and the supplying business. A relationship shall also be

considered to exist when it can be demonstrated that an individual or individuals control or influence management decisions or operations of the facility and the supplying business.

3. Control. Control exists where an individual or an organization has the power, directly or indirectly, to significantly influence or direct the actions or policies of an organization or facility.

C. APPLICATION. Where the provider obtains items of services, facilities, or supplies from an organization, even though it is a separate legal entity, and the organization is deemed to be a related organization, in effect the items are obtained from itself. Reimbursable cost should include the costs for these items at the cost to the supplying organization. However, if the price in the open market for comparable services, facilities, or supplies is lower than the cost to the supplier, the allowable cost to the provider shall not exceed the market price. An example would be a corporation building a nursing home and then leasing it to another corporation controlled by the owner.

D. EXCEPTION. An exception is provided to this general principle if the provider demonstrates by convincing evidence to the satisfaction of the Department that the supplying organization is a bona fide separate organization; that 51 percent of the supplier's business activity of the type carried on with the facility is transacted with persons and organizations other than the facility and its related organizations and there is an open, competitive market for the type of services, facilities, or supplies furnished by the organization; that the services, facilities, or supplies are those which commonly are obtained by facilities such as the provider from other organizations and are not a basic element of patient care ordinarily furnished directly to patients by such facilities; and that the charge to the provider is in line with the charge for such services, facilities, or supplies in the open market and not more than the charge made under comparable circumstances to others by the organization for such services, facilities, or supplies. In such cases, the charge by the supplier to the facility for such services, facilities, or supplies shall be allowable as cost.

367. DETERMINATION OF ALLOWABLE COST OF SERVICES, SUPPLIES  
AND EQUIPMENT

A. PRINCIPLE. Reimbursement to providers for services, supplies and equipment shall be based on reasonable allowable cost as defined in this section. Reimbursement for the services of physicians is detailed in Section 369 of this manual.

B. DETERMINING ALLOWABLE COST. The allowable cost of services, supplies and equipment may not exceed the lowest of:

1. The acquisition of cost to the provider;
2. The provider's usual and customary charge to the public;
3. The prevailing charge in the locality as determined by Title XVIII or the Department for Medicaid Services as applicable; or,
4. If the item or service is identified in the Federal Register as one which does not vary significantly in quality from one supplier to another, the lowest charge level as defined in 45 CFR 450.30.

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368. COST RELATED TO PATIENT CARE

- A. PRINCIPLE. All payments to facilities shall be based on the reasonable cost of covered services and related to the care of recipients. Reasonable cost includes all necessary and proper costs incurred in rendering the services, subject to principles relating to specific items of revenue and cost. However, payments to facilities are based on the lesser of the reasonable cost of covered services furnished to Program recipients or the customary charges to the general public for such services.
- B. Reasonable cost of any services shall be determined in accordance with the principles of reimbursement establishing the method or methods to be used, and the items to be included. These principles take into account both direct and indirect costs of facilities. The objective is that under the methods of determining cost, the costs with respect to individuals covered by the Program shall not be borne by individuals not so covered, and the costs with respect to individuals not so covered shall not be borne by the Program.

369. REIMBURSEMENT FOR SERVICES OF PHYSICIANS

- A. PRINCIPLE. Where the physician bills the patient directly, such amount is to be approved and paid in accordance with the established practices relating to the physician element of the Title XIX Program. Where the physician does not bill the patient directly, costs to the facility are recognized as indicated in paragraph (C) in this section.
- B. REASONABLE COST. For the purposes of determining reasonable costs of services performed by physicians employed full time or regular part-time, reasonable cost of such services shall not exceed what a prudent and cost-conscious buyer would pay for comparable services by comparable providers.



C. APPLICATION. Where the physician is compensated by the facility for medical consultation, etc., on a part-time basis, the amounts paid to the physician, if reasonable, shall be recognized by the program as an allowable cost. Physician services by a part-time facility employee for medically necessary direct patient services shall be paid the physician directly through the physicians element of the Program. Where the physician is a full-time employee of a Nursing facility, all reasonable costs including direct patient services, shall be recognized as routine facility costs and shall not be billed the Program directly by the physician.

Department for Medicaid Services  
Cost Principles

Nursing Facilities

370. MOTOR VEHICLES

- A. Costs associated with motor vehicles that are not owned by the facility, including motor vehicles that are registered or owned by the facility but used primarily by the owner, or family members thereof, shall be excluded as allowable costs.

The cost of no more than three (3) motor vehicles, including vans or trucks, used for facility business shall be allowed up to the following limits:

Rate Year	Total Valuation Per Facility	Inflation Percentage
7/1/87 - 6/30/88	\$15,585	3.9%
7/1/88 - 6/30/89	\$16,224	4.1%
7/1/89 - 6/30/90	\$17,051	5.1%
7/1/90 - 7/30/91	\$17,869	4.8%

These limits shall be adjusted annually for inflation according to the increase in the Consumer Price Index-urban for the most recent twelve (12) month period, as determined by the U.S. Department of Labor; provided however, that medically equipped motor vehicles, vans or trucks shall be exempt from the limitation. Limits for periods subsequent to 6/30/92 shall be promulgated by Reimbursement Letter utilizing the above stated methodology.

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